

Acquisition and Management of Gas and Electric Supply

Since 2009, IDT Energy and Residents Energy have been party to a Preferred Supplier Agreement with BP Energy Company, or BP. The agreement allows for purchases of electricity and natural gas for customers focused in areas where the utilities have POR programs. Under the arrangement, IDT Energy and Residents Energy purchase electricity and natural gas at market rate plus a fee. IDT Energy's obligations to BP are secured by a first security interest in deposits or receivables from utilities in connection with their purchase of IDT Energy's customer's receivables under the applicable POR program, and in any cash deposits or letters of credit posted in connection with any collateral accounts with BP. The agreement with BP has been amended to cover the territories in which we operate. The agreement was modified and extended on November 19, 2015, and is scheduled to terminate on November 30, 2019. IDT Energy and Residents Energy's ability to purchase electricity and natural gas under this agreement is subject to satisfaction of certain conditions including the maintenance of certain covenants.

GRE is required to meet certain minimum green energy supply criteria in some of the markets in which it operates. We meet those thresholds by acquiring renewable energy certificates, or REC's. In addition, GRE offers green or other renewable energy products to its customers in several territories. GRE acquires green renewable energy conversion rights or attributes and REC's to satisfy the load requirements for these customers.

As an owner of REPs, GRE does not own electrical power generation, transmission, or distribution facilities, or natural gas production, pipeline or distribution facilities. GRE's REPs currently contract with Dominion Transmission, Inc., National Fuel Supply, Williams Gas Pipeline and Texas Eastern Transmission and others for natural gas pipeline, storage and transportation services, and utilizes the New York Independent System Operator, Inc., or NYISO, and PJM Interconnection, LLC, or PJM, for electric transmission and distribution. NYISO operates the high-voltage electric transmission network in New York State, and administers and monitors New York's wholesale electricity markets. PJM is a regional transmission organization that coordinates the movement of wholesale electricity in all or parts of thirteen states (including New Jersey, Pennsylvania, Maryland and Illinois) and the District of Columbia.

For risk management purposes, GRE REPs utilize forward physical delivery contracts for a portion of their purchases of electricity and natural gas, which are defined as commodity derivative contracts. In addition, GRE's REPs enter into put and call options as hedges against unfavorable fluctuations in market prices of electricity and natural gas.

The NYISO and PJM perform real-time load balancing for each of the electrical power grids in which GRE REPs operate. Similarly, load balancing is performed by the utilities or local distribution company, or LDC, for each of the natural gas markets in which GRE operates. Load balancing ensures that the amount of electricity and natural gas that GRE purchases is equal to the amount necessary to service its customers' demands at any specific point in time. GRE is charged or credited for balancing the electricity and natural gas purchased and sold for its account by its suppliers and the LDCs. GRE manages the differences between the actual electricity and natural gas demands of its customers and its bulk or block purchases by buying and selling in the spot market, and through monthly cash settlements and/or adjustments to future deliveries in accordance with the load balancing performed by utilities, LDCs, NYISO and PJM.

Diversegy

Diversegy, which we acquired in December 2013, operates as an energy broker and advisor to industrial, commercial and municipal customers across deregulated energy markets in the United States. Customers of all types and size have the ability to leverage Diversegy's expertise and purchasing power as they evaluate their electricity and natural gas procurement plans. Diversegy allows us to enter more markets around the country as we are not limited to only the markets we operate as a REP, and we are not responsible for assuming the risk associated with procuring and managing the commodity.

Competition

As an operator of REPs, GRE competes with the local utility companies in each of the markets where it provides services and with many other licensed REPs. In some markets, competitor REPs are affiliated with local utilities. GRE also competes with several large vertically integrated energy companies. Some of these competitors are larger